

Impact of Detroit's Living Wage Law on Non-Profit Organizations

Center for Urban Studies & Labor Studies Center
College of Urban, Labor and Metropolitan Affairs

Principal Researchers: David Reynolds, Ph.D.
With Jean Vortkamp

(313) 577-2197
Fax: (313) 577-7726
aa2589@wayne.edu

June 2, 2000

Special thanks to the Economic Policy Institute which provided funds to support the research and valuable feedback on drafts of the final report.

Executive Summary

The research focused on the non-profit employers covered by Detroit's Living Wage law. The law requires employers who receive over \$50,000 of funds through the city to pay a wage of at least the federal poverty line for a family of four (\$8.35/hr during 1999) if the employer provides medical coverage, or 125% of the poverty line if no health care is provided (\$10.44/hr in 1999). A total of 96 non-profit employers are covered by the law either through service work contracted with the city or contracted grants such as the Neighborhood Opportunity Funds.

The study aimed to answer two major questions:

Do the living wage requirements cause serious financial harm to these organizations?

What are the appropriate living wage policies to best meet the needs of non-profit employers and employees alike?

A phone survey contacted 64 non-profits to obtain basic information on wages, employment, experiences under the living wage law, and questions and comments. Fifteen of these organizations, those who pointed to potentially the most serious negative effects, were interviewed further to fully document the living wage law's impact on them.

Findings

*** There appears to be no significant correlation between a non-profit's size, budget, employment levels, or type of work and its experience under the living wage.** Therefore, policies based on broad characteristics (such as exempting all non-profits below a certain number of employees) are unlikely to adequately address the needs of this diverse group of employers.

*** Two-thirds of non-profits have already implemented the living wage law.** In addition, other non-profits have pay scales that are already in accordance with the law, bringing non-profit compliance to over 80%.

*** Half of non-profit staff actively support the living wage ordinance.** Twenty-nine percent of those surveyed opposed it. The rest were neutral.

*** Several hundred workers have gained from the law.** Generally only a small proportion of workers at each non-profit is covered by the living wage law. However, when added together they become a sizable workforce estimated at 1,739 non-profit employees covered. The

typical worker who has seen wage gains has gone from pay ranges of \$6-\$7.50/hr up to \$8.35 with health benefits or \$10.44 without. Such changes represent raises of 10-74%.

*** The financial impact on most non-profits is minor.**

However, a minority do face significant obstacles. At most, only one out of four non-profits face significant financial problems in implementing the living wage requirements. Two-thirds of staff interviewed self-rated the financial impact of the living wage on their organization as "minimal" or "minor." The researchers spoke with ten non-profits that faced more significant living wage compliance costs ranging from 2% to 36% of the funds received through the city. In terms of their overall budgets, the costs ran from well under 1% to a maximum of 6% of their total annual budget. Generally, the financial problems in implementing the living wage come not from the actual amount in relation to the organization's overall budget, but the fact that much of the funds used by non-profits are allocated for specific purposes and can not be easily moved. Non-profit fund seekers also have a difficult time in obtaining funds specifically for salaries, especially if the request is for mid-budget supplemental funds. Overall, the living wage law has not led to drastic cuts in either employment or services provided. The more serious adjustments involved mainly reduction in staff hours among a small proportion of employees, cuts in supplies for client events, or other measures to trim program budgets.

*** Several non-profits were concerned about the effect on their internal pay scales.** The living wage requirements can raise salaries of low-skilled and/or newly hired workers to levels comparable to college-educated and/or more senior staff. Non-profit employment all too frequently relies on highly qualified and educated staff working for low wages. Several non-profit staff also expressed opinions that the work of covered workers was "not worth more than they are paid." The living wage ordinance raises a basic debate over the essential value of work. Are there cases in which an employer can justify paying an adult below the poverty threshold?

*** Non-profits remain confused over how the law operates. Many complain of difficulties getting clear answers from the city.** One misunderstanding is the belief that the living wage law applies to all of an organization's staff when, in fact, it covers only those workers whose jobs are connected to city-related funds.

*** To date only two part-time workers have been laid off as a result of Detroit's living wage law among 64**

organizations studied. Two additional non-profits face raising the wages of a majority of their work force and have held off implementing the law. With this small employment impact on those organizations potentially most vulnerable to a living wage burden, it is quite unlikely that the private sector would seriously shed jobs as a result of the living wage.

Evaluations of Current Policy Recommendations

The city law department has compiled three revised versions of the ordinance which reflect negotiations between the Detroit Regional Chamber of Commerce and the Detroit Metropolitan AFL-CIO, as well as the law department's own suggestions. All three versions provide exemptions to non-profits. Two, in effect, exempt most or all non-profits. The other offers a more targeted exemption.

Amendments Which Exempt Most or All Non-profits

A provision in the amended ordinance version A would exempt most or all non-profits by restricting the application of the living wage requirements for federal grant programs only for funds given for "economic development and job growth." No non-profit would qualify under such criteria.

In version B, two amendments proposed by the Chamber of Commerce would similarly exempt nearly all non-profits. The raising of the financial threshold for non-profits to \$500,000 would exempt 65% of those organizations currently covered. Only two non-profits would qualify under the requirement that the organization have 100 or more employees employed through city-related funds.

Large exemptions are inappropriate for the following reasons:

Most Non-Profits Have Already Implemented The Living Wage Law. They cannot now reverse their wage changes.

Three-quarters Do Not Face a Significant Financial Burden.

Hundred of Workers Have Seen Wage Gains – These represent a substantial portion of the workers covered by the living wage law generally.

A Majority of Non-Profits Who Face Significant Cost Burdens Do Not Prefer Exemptions.

Amendments Proposing More Narrowly Targeted Exemptions

Version A includes special exemptions for youth and training-related employment that are appropriate for the needs of non-profit employers. Version C includes an exemption for non-profits that employ ten or less workers. However, since the impact of the living wage requirements does not correlate to the size of the organization, such a provision does not target the non-profits most in need, while exempting many that have been able to implement the law.

Recommended Policies: A Mix of Targeted Measures

Four inter-connected policies would address the needs of most non-profit employers and employees.

1. Targeted Supplemental Funds

Since only a small number of non-profits face significant financial obstacles, the city could cover the costs for these organizations with only modest costs to itself. We suggest two criteria for a non-profit to qualify for supplemental funds.

- a. The costs of implementing the living wage requirements are more than a certain proportion of the organization's annual operating budget (1% for example).
- b. The costs of implementing the living wage requirements are more than a certain proportion of the funds received annually from the city for a given program (5% for example).

If a non-profit that runs multiple programs meets criteria b, but not a, it may apply for supplemental funds for a specific program if it can document why additional funds can not be allocated from the larger organization.

Depending on whether the city picks up all or only a portion of the compliance costs, the maximum costs to the city range between \$237,658 to \$398,650 out of \$57 million dollars in contracted and passthrough funds provided to covered non-profits. These estimates are based on a threshold of 5% of city-provided funds.

2. Targeted Exemptions

Policies of targeted exemptions offer an important supplement to supplemental funds. The proposed

provisions in sec. 18-5-82 (C), discussed above, do address the primary exemption need -- namely youth and training employment.

3. Clarity on Living Wage Coverage

For some non-profit organizations the exact application of the living wage is unclear because the city provides only a portion of a program's funding. The report recommends several ways to clarify and adequately document the law's application. In addition, the appendix provides a list of the questions asked by non-profits interviewed and recommended answers to them.

4. Clear Enforcement and Responsibility

Many non-profits expressed confusion and difficulties in obtaining information about the living wage law and its application. The experience from living wage enforcement in other cities confirms that decentralized, department-by-department enforcement is ineffective. Judging from the other cities that have successfully implemented living wage laws, Detroit should have at least two full time staff dedicated to the living wage. This staff should be fully trained and have the authority to conduct spot checks of covered workplaces with full access to payroll data and workers.

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Table of Contents

Purpose of the Study	7
Research Overview	9
I. Phone Survey Results	
Profile of Covered Non-Profit Employers	10
Non-Profit Experience with the Living Wage	13
II. Depth Interviews With Non-Profits Most Effectuated	
One Third of Interviews Non-Profits Found to Face Only Modest Costs	18
Non-Profits Who Face Financial Barriers	18
Other Issues in Non-Profit Implementation of the Living Wage	20
Benefits to Covered Workers	23
III. Policy Recommendations	
Evaluation of Current Proposals	25
Recommend Policies	28
1. Targeted Supplemental Funds	
2. Targeted Exemptions	
3. Clear Specifications of Living Wage Coverage	
4. Clear Enforcement and Responsibility	
IV. Relevance to Other Cities	32
V. Appendix	
Questions from Non-Profits about the Living Wage and Suggested Answers	34
Phone Survey Questionnaire	35
Non-Profit Depth Interview Schedule	38
The Detroit Ordinance as Passed in November 1998.	39

Purpose of the Study

Detroit's Living Wage Law

In 1998, a coalition comprised of over ninety community, labor, civil rights, church, and non-profit endorsers and led by the Metropolitan AFL-CIO placed a living wage proposal on the November Detroit ballot. The ballot initiative passed overwhelmingly with 81% of people voting in favor of the new law.

The specific requirements of the ordinance are:

- Employers who receive over \$50,000 either in yearly contracts or financial assistance for economic development or job growth must pay their employees wages sufficient to meet basic subsistence needs.
- This required "living wage" is equal to the federal poverty line for a family of four (\$8.35/hr during 1999) if the employer provides medical coverage, or 125% of the poverty line if no health care is provided (\$10.44/hr in 1999).
- To the greatest extent feasible, employers must fill jobs, created through the use of contracts or financial assistance with City of Detroit residents.

Non-Profits and Detroit's Living Wage

Part of the controversy surrounding Detroit's Living Wage law has focused on its potential impact on non-profit organizations. As government has reduced its direct provision of social services, non-profits and for-profit organizations have attempted to fill the gaps. Not surprisingly, therefore, our earlier study on the general impact of Detroit's living wage law found that two-thirds of the workers likely to gain from the living wage requirements were employed in the social service sector. A majority of such employers are non-profit organizations.

Just after the law was passed two non-profit organizations, Focus Hope and the Salvation Army publicly denounced the law. The Salvation Army claimed that the ordinance would force them to raise salaries for their Michigan workforce at a cost of over one million dollars. However, subsequent clarifications of the ordinance's application by the city's law department made clear that only those workers employed through funds provided by the city are covered by the law. Thus, only a relatively small portion of this Southfield-based non-profit's employees are covered. Focus Hope, which runs a training program in which participants produce

parts for the Big Three auto firms, claimed that the living wage requirements would force them to shut down or drastically reduce their training program. The actual impact is unclear. The organization has a history of opposing labor initiatives, including aggressive efforts to block unionization among its employees. Although contacted, Focus Hope staff did not participate in the research survey.

At the other end of the spectrum, several non-profit organizations went on record publicly supporting the living wage ordinance. However, with close to one hundred non-profit organizations covered by the law neither these organizations nor the Salvation Army and Focus Hope could accurately claim to represent the diverse non-profits covered by the ordinance. Prior to the current research, the authors were involved in discussions at the Michigan League for Human Services annual gathering and with the Michigan Non-profit Association. These conversations suggested that the dominant reaction of non-profit employers was one of confusion over what the law actually said and how it would be applied to them.

Research on Living Wage Laws

The application and impact of living wage ordinances to non-profit organizations is an area that has received little systematic study. To date, individual studies have estimated the potential impact of a living wage law for nine different cities. Two detailed academic studies have also been done on the post-enactment impact in Baltimore. Local governments in Los Angeles, San Jose, and Multnomah County have conducted internal reviews after their laws went into effect. All of these studies have concluded that living wage benefits a modest number of low wage workers with little negative impact on taxes, job levels, or the business climate. However, none of these studies singled out a living wage law's impact on non-profit employers.

The effect on non-profits may or may not be different from for-profit employers. According to living wage studies, such laws present little negative impact because the cost of raising low-wage salaries has proven quite modest. Wages represent only one part of a firm's operating budget and the wages of low-income workers often come as only a modest portion of the overall payroll. The Baltimore research found that, for city contractors who raised wages as a result of the living wage, the short-term wage costs were often offset by long-term gains in reduced employee turnover, higher morale, and improved service. Even without this effect, all of the studies point to quite modest funds needed to raise poverty-level wages – typically below one percent of a firm's operating budget. These amounts are certainly far

less than the general profit margins of the employing firms.

Non-profit organizations, however, operate under more constrained budgets. While a for-profit employer can always, if needed, tap into profits to pay for wage increases, non-profit organizations rely upon a fixed income often restricted to specific expenditures. Thus even modest wage cost increases may have to be generated by cuts elsewhere in what amounts to a fixed budget. Long-term benefits in employee retention and motivation may not be accessible to organizations that do not have the short-term funds to invest in living wages.

Research specifically on non-profit organizations covered by an actual or proposed living wage law is quite sketchy. In 1999, the living wage campaign in Ann Arbor conducted a phone survey of social service non-profits covered by the proposed living wage law. According to the wage data supplied by these organizations, seven of twenty-five currently employed workers at wage and benefit levels below the living wage, for a total of 133 workers. In each case, however, these effected workers were a minority of those employed ranging from 6-40% of the entire organization's workforce. Of those interviewed, thirteen non-profit staff supported the ordinance, only two opposed it. The exact costs to non-profit employers of living wage compliance could not be estimated because the exact work hours of effected employees was not part of the study.

Research Overview

Since little research information exists on how living wage laws impact non-profit organizations and due to the general confusion among area non-profits about the Detroit law, the Detroit City Council passed a resolution in November 1999 requesting that researchers from the College of Urban, Labor, and Metropolitan Affairs at Wayne State conduct a general survey of non-profit organizations covered by Detroit's Living Wage Ordinance.

The researchers compiled a list of 96 non-profit organizations that received over \$50,000 in yearly contracts or grants from the city of Detroit between November 1998 and December 1999. Over half of these employers received direct contracts from the city for work in substance abuse counseling, job placement, and other social services. The other large block of covered non-profits came from the Neighborhood Opportunity Funds. City practice allocates these funds as contracts, not as financial assistance. If funds are given as financial assistance, the living wage requirements only apply if given for the purpose of "economic development and job growth". However, as contracts all recipients are covered who receive over \$50,000 in funds.

The research consisted of two steps. First, the phone survey research facility at the Center for Urban Studies, Wayne State University attempted to contact all 96 covered non-profits to solicit their response to a sixteen-question survey. From this information, the researchers identified 26 non-profit organizations potentially the most adversely effected by the living wage requirements. Researchers tried to contact most of these organizations for detailed interviews concerning their particular situation.

- Whether the living wage requirements had been implemented
- The impact or potential impact of the living wage requirements on the non-profit
- The respondent's opinion of the living wage law
- Questions or messages which they had for the city council

Sixty-four organizations responded to the survey. This response rate is quite good for this kind of survey. With information from two-thirds of the non-profit organizations covered by the living wage law, the data provides a good picture of covered non-profits as a whole.

I. Phone Survey Results

For the phone survey, researchers asked to speak to each non-profit's executive director or a person capable of providing basic budget and employment information. Each interviewee was told that their organization's identity would remain anonymous. The full questionnaire is included in the appendix. Questions focused on the following main categories:

- The organization's budget
- Funds received from the city
- General employment and wage levels
- Employment and wage levels on work covered by city funds

Profile of Covered Non-Profit Employers

The survey results make clear that the non-profit sectors covered by the living wage represent a diverse collection of organizations. Their annual budgets range from \$150,000 to \$120 million a year. They employ from 2 to 390 employees. The work ranges from food banks to substance abuse counseling to job placement to elder care. The below tables profile this diversity along several major features.

Table 1 -- Overall Employment

Total Number of Employees	Percent of Covered Non-Profits
1-10	30%
11-25	17%
26-50	28%
51-100	9%
101-150	6%
151-390	9%
Total employment all 64 non-profits: 3810	

Table 2 -- Portion Total Employment that is Part-time

Percent of Total Employees Part-Time	Percent of Covered Non-Profits
None	17%
Under 10%	13%
10-25%	27%
26-50%	28%
51-71%	13%
80%	1 non-profit
100%	1 non-profit

Overall, 888 (23%) of covered non-profit employees work part-time.

Table 3 -- Employment through City Funds

Number of Employees Covered by the Living Wage Requirements	Percent of Covered Non-Profits*
1-3	14%
4-9	29%
10-19	28%
20-35	18%
36-65	7%
129	1 non-profit
232	1 non-profit
No information	7 non-profits

* Percentages are of the 57 providing information

Total number of workers directly covered by the living wage ordinance: 1148.

If we assume that the non-profits which did not answer the survey fit the same profile as those that did, then the estimated number of employees becomes 1,739. This fits well with the 2,460 estimated in our original Detroit impact study for the social service sector as a whole (which included 13 for-profit employers who received over \$25 million in funds).

Table 4 -- Portion of Workers Employed with City Funds

Portion of Employees Covered by the Living Wage Requirements	Percent of Covered Non-Profits*
Under 10%	10%
10-19%	18%
20-33%	14%
34-67%	19%
68-99	7%
100%	32%
No Information given	8 non-profits

* Percentages are of the 57 providing information.

Overall, one in four non-profit workers was employed through city funds. Their wages are subject to living wage compliance.

Table 5 -- Annual Budgets of Covered Non-Profits

Annual Amount	Percent of Covered Non-Profits
\$150,000-\$250,000	10%
\$250,000-\$500,000	13%
\$510,000-\$1 million	19%
\$1.1-\$9 million	26%
\$10-\$37 million	28%
\$110-\$120 million	2 non-profits

Table 6 -- Yearly Funds Received through City

Annual Amount	Percent of Covered Non-Profits*
\$17,000-\$50,000	15%
\$51,000-\$100,000	20%
\$110,000-\$250,000	13%
\$260,000-\$500,000	19%
\$510,000-\$1million	11%
\$1-2 million	14%
\$3 -7.5million	7%
No Information	12 non-profits

*Percentage of 54 who gave information

Table 7 -- Portion of Budget Received Through City

Annual Amount	Percent of Covered Non-Profits*
Less than 5%	18%
5-10%	19%
11-25%	23%
25-50%	14%
50-75%	12%
75-90%	9%
90-100%	5%
No Information	7 non-profits

*Percentage of 57 who gave information

Table 8 -- Type of Work Performed Using City Funds

Type	Number
Substance Abuse Counseling	14
Job Placement/Preparation	9
Homeless	6
Elderly	5
Food Bank	3
Health	3
Child/Youth	3
Legal	2
Multiple Services	6
Unspecified	12

Conclusions from Non-Profit Profiles

The non-profit sectors covered by Detroit's living wage law are quite diverse in terms of type of work, employment levels, budget, and wages. There appears to be little pattern correlating among these dimensions. For example, as the below two tables demonstrate, the overall size of an organization does not correspond to a clear pattern for either the number of workers covered by the living wage requirements or their portion in relation to the organization's total employment. For example, organizations that employee 1-10 workers range between all to fewer than 10% of these employees covered by the living wage law. The same is true for non-profits employing 26-50 and 151-390. The portion of employees covered is likely to be a central factor in determining the potential financial costs to an organization. The lack of correlation between overall employment and portion of workers covered suggests that policies based on the number of non-profits employees (such as exempting those below a certain level) are unlikely to adequately address the needs of this diverse group of employers. As we will detail further below, additional data confirms that employment size-based criteria fails to provide an adequate means for targeting non-profits most in need.

Table 9 -- Total Employment Compared to Number of Employees Covered by the Living Wage Requirements

Total Employees	Total # Non-profits	Number of Employees Employed With City-Related Funds					
		1-3	4-9	10-19	20-35	36-65	129&232
1-10	19	47%	53%				
11-25	11	9%	36%	54%			
26-50	18	22%	28%		39%	11%	
51-100	6	16%		83%			
101-150	4			25%	50%		25%
151-390	5			40%	20%	20%	20%

Table 10 -- Total Employment Compared to Portion of Employees Covered by the Living Wage Requirements

Total Employees	Total # Non-profits	Percentage of Employees Employed With City-Related Funds					
		Under 10%	10-19%	20-33%	34-67%	68-99%	100%
1-10	19	21%		5%	21%		53%
11-25	11	9%		18%	27%	18%	27%
26-50	18	22%	22%	6%	16%	11%	22%
51-100	6	16%	67%	16%			
101-150	4		25%	50%			25%

151-390	5	60%	20%	20%			
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Non-Profit Experience with the Living Wage

The phone survey asked non-profits to explain whether they had been able to implement the living wage. If they had, the survey asked them to evaluate the impact. If they had not, the researchers asked them to explain the likely impact. Interviewers emphasized that the identity of each non-profit would remain confidential. Table 9 summarizes the results.

Table 11 -- Implementation and Support for the Living Wage Law

	Have Implemented The Living Wage 44 non-profits	Have Not Implemented 20 Non-profits**	All Surveyed Non-profits
Self-Evaluation of Impact			
Minimal	50% (22)	50% (10)	50% (32)
Minor	18% (8)	0	13% (8)
Significant	18% (8)***	15% (3)***	17% (11) ***
Major	14% (6)***	35% (7)***	20% (13) ***
Opinion of Living Wage*			
Support or Strongly Support	55% (23)	29% (5)	48% (28)
Neutral	22% (9)	29% (5)	23% (14)
Oppose or Strongly Oppose	24% (10)	41% (7)	29% (17)

Results in brackets () are the raw number of organizations in each category.

* percentage of those 59 interviewed who expresses an opinion.

** 8 of the 20 already have pay scales that meet the living wage requirements.

*** As we will discuss below, since the self-evaluations were subject to the respondent's understanding of the application of the living wage and what the words "significant" and "major" meant, these numbers overstate the potential negative impact.

Most Non-Profits Have Implemented the Living Wage

Over two-thirds of the non-profits both said that they had implemented the living wage and provided wage data that confirms compliance. The information provided by the depth interviews showed that actual non-profit compliance is over 80%. Those implementing the living wage include over half of those who rated the impact as significant or major. While a sizable number of those which have not implemented the law may not have done so because of a significant or major impact on them, 40% have not implemented the law even though they rate the impact as minimal. Indeed, judging from the employment data they provided, these eight already pay a living wage to their covered employees. One-third of those that have implemented the living wage have done so despite an impact which they rate as significant or major.

No simple set of characteristics distinguishes those that have implemented the law from those that have not. As table 12, shows non-profits of different employment size

vary little on the portion who have implemented the living wage. The rate of self-conscious implementation is lower among those non-profits less dependent upon city-related funds.

Table 12 Correlation Between Implementation and Size and Dependence on City Funds

	Total Number	Not Implemented Living Wage	Implemented Living Wage
Total Employees			
2-25	30	30%	70%
26-100	24	29%	71%
101+	10	40%	60%
% Budget City-Related Funds			
1-25%	34	35%	65%
26-50%	8	25%	75%
51-75%	7	14%	86%
76-100%	8	12%	88%

Self-Evaluation of Impact

Overall, 63% of non-profits rated the impact or potential impact of the living wage requirements on them as minimal or minor. When we factor in the results of the depth interviews, for over two-thirds the impact is minimal or minor. Therefore, for a majority of non-profits the living wage requirements do not appear to represent an unduly harmful financial burden.

The remainder, 37% rated the impact as significant or major. Exactly what “significant” or “major” means, however, is unclear from the survey data. The researchers intended these terms to refer to significant cuts in worker hours, employment, or services provided. However, depth interviews found that a third of those who rated the impact as “significant” or “major” did not face such problems. In fact, these organizations faced only minor financial considerations. The self-evaluations overstated the impact for two major reasons.

First, the phone survey only provided the four options without further details about each rating. In being asked to describe the impact, some of those that rated the impact as significant or major did point to potential cuts in services and/or employment. Such comments included:

- “diminish program working hours”
- “cut certain services”
- “cut back on services, lay some people off”
- “put people on quarter time and cut services”

Those that made such comments included both those that express support for the living wage and those opposed to it.

However, others who rated the impact as significant or major described it in different terms such as:

- “postponed some purchases. We lived with it.”
- “reduce certain office supplies and equipment”
- “had to raise salaries in the middle of a budget year”

Furthermore, even such descriptions as “cut certain services” or “lay some people off” are unclear. For example, in the depth interviews, we spoke with a non-profit with 45 employees that had rated the impact as major and described it as “cutting back on people working.” However, from the interview, it became clear that the effected employees were half a dozen young people that the organization hired for odd jobs a couple hours a week. To compensate for wage increases to these workers, the organization said they would have to hire fewer. While an important impact worthy of consideration, such an adjustment did not effect their core staff and operations. Therefore, the impact seemed to hardly justify being categorized as “major.”

Second, many non-profits are still confused over what the law is and how it applies. In particular, some non-profit staff are unclear over whether the living wage requirements apply to all employees of their organization or just those performing work related to city funds. The false notion that the living wage is a mandatory across-the-board wage continues to be a source of unnecessary stress. If the city considers all funds provided to non-profits as contracts, then the requirements should apply only to workers employed through these funds. In many cases, such a clarification completely changes the respondents’ self-evaluation of the impact from major or significant to minimal.

Because the self-evaluations were subject to the interviewee’s own interpretation and opinion about the living wage, we focused our depth interviews on the 26 non-profits that rated the impact as “significant” or “major.” Our goal was to sort out in detail exactly what these categories meant. As we will see below, the actual impact on the bulk of these organizations is even less than the survey results suggest.

Table 13 breaks down the self-evaluation of the impact by employment size, portion of budget received in city funds, and type of work.

Table 13 Correlation Between Self-Evaluation and Size, Dependence on City Funds, and Type of Work

	Total Number	Minimal or Minor	Significant or Major
Total Employees			
2-25	30	63%	37%
26-100	24	63%	37%
101+	10	50%	50%
Portion Budget City-Related Funds			
1-25%	34	73%	27%
26-50%	8	63%	37%
51-75%	7	29%	61%
76-100%	8	71%	29%
Type of Work			
Substance Abuse Counseling	14	71%	29%
Job Place & Prep.	9	89%	11%
Homeless	6	66%	33%
Elderly	5	40%	60%
Food Bank	3	66%	33%
Health	3	66%	33%
Child/Youth	3	0	100%
Legal	2	100%	0
Multiple Services	6	33%	66%
Unspecified	13	69%	31%

Once again there is little correlation with total employees. While at first glance, larger organizations may appear more capable of adjusting to the living wage requirements than smaller employers, this is not always the case. Non-profit funding often comes for specific purposes and cannot be easily reallocated. Thus, the impact of the living wage requirements may be dealt with not at the level of the organization, but within a specific program. An organization with six employees that receives most of its funds through the city may have a similar experience to one with 35 employees for which a specific six-person program relies on city funds.

The portion of city funds in the middle range shows a greater number of non-profits that rated the impact as significant or major. The 1-25% and 76-100% are the same portion. Among the type of work, the categories of elderly care, child/youth, and multiple services show a greater portion of significant or major self-evaluations. However, since the number in each case is small, a strong conclusion cannot be made.

Opinion of the Living Wage Ordinance

More non-profit respondents support the living wage than oppose it. Nearly half of the staff interviewed said they supported or strongly supported the living wage. Interestingly, 18% of these rated the impact on them as significant or major. Comments included:

“I think it was an appropriate move. I wish that there was a way to raise the living wage for everybody in the country. There is just too much of a disparity in the income of the people in America.”

“If you can get the wage higher do so. We work with the homeless so we see the damage poverty can do to people.”

“It should have been sooner because everyone needs a decent wage. The wage helped us get more qualified workers. It raised the bar.”

“I would like to congratulate the council. Non-profits should not be exempt from the living wage.”

Twenty-nine percent of non-profit staff said they were opposed or strongly opposed to the living wage ordinance. Just over half (52%) of these rated the impact on themselves as significant or major, suggesting that their opposition may come from the financial impact. (Alternatively, however, it could mean that those opposed to the law rate the impact as significant or major or that the non-profit staff incorrectly believe that the wage requirements apply to all their employees). Nearly one-third (30%) of those that expressed opposition rated the impact on themselves as minimal – suggesting a certain level of opposition exists among non-profits based on considerations other than the direct financial effect on them. Only nine out of 64 covered non-profits (14%) opposed the living wage and gave descriptions of a significant or major impact. Comments of opposition included:

“I totally disagree with this \$8.25 hourly wages. Small businesses, especially women, cannot afford to pay this kind of money to stay in business.”

“I don't think that the city should be regulating the wage rate of agency. We have federal and state laws to do that.”

“I don't think that they considered the impact of this ordinance on people who really don't have any flexibility in their budget. Our only alternatives were laying off employees or reducing hours.”

“If we receive more funding from the city council, we could pay our workers more and provide more services. We have to do extra fund raising to raise funds for needed services.”

“There should be a way to allow non-profits to be exempt or allocate them more funds to implement this plan fully.”

Of the 14 respondents that expressed neutrality, eight rated the impact as minimal or minor, 6 rated it as significant or major. Several comments pointed to the clear need for clarification on how the law works and applies to non-profits. For example:

“We would like to know from the city council how the ordinance applies to our own worksites. There are still questions out there over how it applies to non profit organizations.”

“We really need clarification and more expedient responses. It shouldn't take over 12 months to get an answer.”

“If we could get a final adopted ordinance which would have a clear explanation as to what exactly is expected of us.”

II. Depth Interviews with Non-Profits Most Effected

Given the confusion over how the living wage applies to non-profit employers, the self-evaluations provided by the phone survey did not provide sufficient information to fully evaluate the impact of the living wage requirements. Using the phone survey data, the researchers attempted to contact the 26 organizations which rated the impact as significant or major. Where possible, the interview was done in person at the organization. A copy of the interview schedule is provided in the appendix. Fifteen interviews were completed covering the full distribution of the 26 non-profits in terms of size, budget, and type of work.

The depth interviews allowed the researchers to work out with non-profit staff exactly who the law applied to and how much compliance actually cost in dollars and cents. Following this clarification, the non-profits were divided into two clear categories: those for whom the living wage did not present a serious financial burden and those who did or would experience significant costs.

A Third of Non-profits Reporting A Significant or Major Impact Actually Faced No Cuts in Employment or Services

For five of the non-profits interviewed the impact was found to be much less serious than the data provided by the phone survey would have suggested. For example, as already mentioned, at one organization the impact applied only to the hiring roughly a half dozen young people employed to do odd jobs on a very temporary basis. A simple youth exemption would address the future needs of this organization.

Another non-profit said they had already been able to factor in the new costs in their funding requests. Although they did not provide detailed wage breakdowns, the living wage costs were likely a small portion of the considerable funds received from the city.

For several non-profits their earlier self-evaluations of a “major” impact were based on the false assumption that their entire workforce was covered by the living wage. Upon clarification that the living wage requirements applied only to those workers performing work related to city funds, the costs turned out to be minimal. For one non-profit the actual costs worked out to under \$10,000 in

a \$17 million budget. For another the costs dropped to zero.

Overall, the actual costs for the five non-profits placed in this category ran all under one percent of the organization’s operating budget.

Non-Profits Who Face Financial Barriers

The remaining two-thirds of interviewed non-profits (10 total) faced costs to comply with the living wage significant enough to merit special consideration. Table 14 summarizes the overall financial impact.

Table 14- Non-profits Who Face Costs Meriting Special Consideration

Type of Work	Implement	Total Employees	# Workers Gaining a Living Wage	% Workers Gaining a living wage	Cost of Providing the Living Wage	Cost as Percentage of Budget	Cost as % of Funds Received Through the City	money or exemption?
substance	yes	19	6	32%	\$23,554	2.8%	5.4%	money
health	yes	4	3	75%	\$4,160	6%	6%	money
homeless	yes	28	2	7%	\$11,430	1.4%	15%	-
substance	yes	8	2	25%	\$7,030	3%	6%	money
elderly	no	25	20	80%	\$49,400	1.6%	13%	-
multi	no	390	25	7%	\$38,675	0.2%	2%	money
food	no	200	6	3%	\$19,716	0.3%	36%	exempt
multi	yes	45	9	20%	\$14,000	0.8%	5%	money
substance	yes	30	2	7%	\$6,927	0.02%	3.6%	money
child	no	213	28	13%	*	Under 1%	Over 5%; Under 10%	money

*This organization did not provide a detailed breakdown. The cost proportions were estimated from the phone survey data. Costs estimated for this organization were further complicated because it hires clients to do work who are compensated with room and board in addition to a wage.

For two of these organizations, the living wage increases applied to half or more of their employees. For the remainder the portion amounted to one-third or less. These organizations come from a wide range of service categories including substance abuse counseling and treatment, homeless shelter, food banks, and senior services.

With a few exceptions, the problem posed by the living wage requirements did not come from the actual cost relative to the organization's budget, but from the fact that many non-profits operate under sharp financial restrictions. They often apply for funding with detailed line item break-downs. Generally speaking, funding sources do not view salaries at top priorities. Wage requests are especially problematic when made in the middle of budget cycle in an application for supplemental funds.

When asked if they preferred additional funds to cover the required wage increases or an exemption from the living wage law, only one pointed to an exemption while seven preferred additional funds. Two did not specify.

Conclusion on Costs

In no case do the above costs per budget exceed the maximum estimated in the original Detroit impact study. Indeed, all but one came considerably lower than the estimated costs. If these organizations were for-profit employers the cost of 1.5% to 3% of the operating budgets would not present a serious burden. However, since these non-profits have fixed budgets, the costs have

greater significance. Indeed, as mentioned above, even if the overall budget has some leeway to pick up the costs, the non-profit may not have full freedom of action to shift funds. Furthermore, the money received through the city may represent only a small portion of the organization's total budget, but may be the majority of the funds available for a specific program. Thus, the specific program may need help from its major funding source – the city.

Because of such constraints on their budgets, for a small number of non-profits the living wage requirements do present a significant burden. These strains are not the kind that would generally lead to the wholesale shutting down or drastic reduction of programming. Rather the impact is one in which the organization cuts back on the hours for certain staff, trims certain programming, reduces supplies for client events, etc. In only one case of actual implementation did an interviewed non-profit lay someone off. In this case, the organization of thirty employees eliminated the two positions (both part-time) that paid below the living wage. Financially, eliminating only one should have allowed them to pay the other the living wage. The non-profit said that they were fund raising to reestablish one of the positions.

Two of the organizations that have not implemented the living wage would face having to raise the wages of a majority of its employees (one of these non-profits was interviewed in depth). Without additional funds, these two organizations would have to cut employment or seriously reduce hours.

Other Issues in Non-Profit Implementation of the Living Wage

Both the phone survey and depth interviews identified four issues effecting non-profit compliance other than simple budgetary considerations.

1. Internal Pay Scales

For many non-profit staff, the issue with the living wage was not the costs of paying the workers covered by the law, but the fact that such wage increases were seen as upsetting the organization's internal pay scale.

The most common example of this situation came from the substance abuse programs reliant on Federal funds. The Federal funding for substance abuse counselors run in the \$18,000/year range and have not been increased in several years. When the living wage requirements bring maintenance staff up to \$8.35/hr, they are earning close to the roughly \$8.65/hr which the Federal government provides for counselors. In another example, a non-profit's wage scales went from \$6.50/hr for the lowest paid to \$12/hr for the director. By raising wages to \$8.35/hr (or \$10.44 if no health benefits), the living wage would significantly flatten this organization's internal pay scale. Employees with more extensive educational background and other qualifications who are making \$9, \$10, \$11 an hour could possibly resent less skilled workers being moved up to their pay levels. This friction could worsen if the employer had to make cuts in supplies and other areas to raise the bottom pay scales.

A different version of the same issue is that the living wage requirements may raise the wages of newly hired workers such that the pay differential between them and a worker of greater seniority is reduced.

However, is the problem that less-skilled workers would earn a living wage, or that professional human service work is woefully under valued? Obviously, the Federal standards are clearly not paying the full worth of substance abuse work. More generally, social service work all too frequently involves highly qualified, highly educated workers employed at quite modest wage levels. Such work relies upon people's personal commitment to helping others to attract and retain them in low-paid positions.

2. Attitudes toward Low-Skilled Work

A number of non-profit staff who complained about upsetting the organization's pay scales raised a different issue. These organizations had much wider internal pay scales – ranging from \$7-\$8/hr at the lowest to \$21-\$29 at the highest. For one non-profit the top personnel earned \$50-\$60/hr while some of the workers effected by the living wage earned \$7.50. For these organizations, the issue was not one of collapsing the internal pay scales, so much as having to pay workers “more than they are worth.” Non-profit staff argued that the low wages reflected a lack of qualifications through some combination of workers being unskilled, not fully literate, hired out of prisons, or clients put on the pay roll. Several non-profits claimed that they had trouble getting good work out of employees covered by the living wage.

These arguments over an employee's worth point to the essential moral issue raised by the living wage law. Can a lack of applicable skills or a troubled background provide an adequate rationale for paying people a wage that places them in poverty?

Sixty years ago the answer was a clear no. When the Federal minimum wage was first enacted in 1938 it was intended to provide a living wage. Workers covered by the minimum wage who worked full time would not live below what was then called the minimum subsistence level. This action was justified both on the morale grounds of “a fair day's wage for a fair day's work” as well as the need to raise consumer demand in order to revive the American economy from the Great Depression. Since 1938, the minimum wage has not kept pace with inflation. If it had, it would be in the wage range set by Detroit's living wage law. A Federal minimum wage set at \$5.15/hr sets a wage standard that implies that \$6,\$7,\$8/hr is reasonable if workers are less qualified than others making a higher wage.

However, different minimum wages set different standards. In Denmark, where the minimum wage was \$14/hr in 1995, even the amounts required by the living wage law would be considered an outrage by any worker, no matter the skill level or qualifications. Similarly, in Sweden, where most of the work performed by Detroit-area non-profits would be done through unionized public jobs, workers at the bottom of the pay scale would expect, as a matter of course, to be paid wages comparable to similarly unionized less-skilled positions in manufacturing. Historically in the U.S., many of the non-profit positions covered by living wage were once unionized governmental jobs.

Yet, another variation on the pay scale issue were non-profit staff who suggested that because their employees

were dedicated to the mission of the program, wage levels were less an issue. As one staff person explained, “we have a mission-driven staff. They are not here for the money. They are not paid top dollar, and if they want that then they should go to a corporation.” The living wage raises the issue of whether or not there are cases in which a staff’s dedication to the work of serving the poor through a financially constrained non-profit organization can justify paying them wages below the poverty line.

How Covered Workers Viewed Their Pay

Our study did not speak directly to the workers effected by the living wage ordinance to solicit their opinion concerning wage scales. However, the second study done on the living wage law in Baltimore did talk extensively with covered, low-wage service workers. Most of these were school bus aides who take care of children -- job situations comparable to many of the types of jobs covered by Detroit's living wage law. The interviews made clear that the value assigned to work was an important issue. By changing the rate of pay, employers had changed the message they sent to their employees. The following statements were typical of the responses when researchers asked workers to describe if the living wage had effected their view of their job.

The pay, it does affect the performance of the job. Because I never did like volunteer work, you know, doing something for nothing. It makes me feel better about myself. It makes me want to work, because I see what I’m getting for the work. You know, the quality of my work. I see it in my pay. If I don’t see it in my pay, then you’re not caring about me, the work I give you. Don’t give me all this work and then not enough to take care of my family. I’m doing the job you ask me to do. I want to see that when it comes pay time.

I feel like I’m working for something now. I feel self-worth more, even though my work is only 20 hours per week. I feel good about [my job]. I can pay my bills. I can get things extra, more than I could before. It’s also enabled me to stop my second job.

The money thing, it’s definitely real good because I can better myself as far as what I need to do for myself. I know that \$7.10 ain’t all, but it’s better than \$6.00 or \$6.60. I’m there because I know that in July, I’ll get another raise. It’s going to get better...

It’s made somewhat of a difference to me. I think I’ll be staying there for a while because I’m getting a little more money. Basically, I don’t miss much time anyway, but I’ll miss even less, and I’ll want to do what I’m supposed to do, like keep my bus clean...So my attitude, I guess, has changed for the better.

I think it’s real neat. I take pride in what I do.

There are times when you say, I’m a bus aide and someone asks, “you put up with all that for that little bit of money that they pay you?” you know. And they’ll say “janitor pays more than that. You could be a janitor.” And it’s just that now I feel like I have more confidence in the job I’m doing.

These statements make it clear that for low-wage workers the value and worth assigned to their work is clearly important to them. Roughly half of the workers interviewed in the Baltimore study made comments similar to those above. Implied in these statements is a reality, before the living wage, in which workers clearly felt that they were not being paid what they were worth. Indeed, low-wage paying employers can create a self-fulfilling prophecy. By paying near the minimum wage, they tell employees that they are not valued. The unmotivated employees then do uneven work and often do not stay long at the job. This in turn justifies to the employer their policies of low wages and a lack of investment in the employees. And the cycle continues.

3. Confusion and Problems Over City Implementation

Many non-profit comments which criticized the living wage did not focus on the law itself or its requirements, but the city’s implementation of it. Several non-profits have had trouble getting basic questions answered about the living wage – who it applies to, what are the required wages, how does the healthcare provision work, etc.

Furthermore, when they have gotten answers from specific city departments, the information has not always been consistent. One staff interviewed explained that they had a letter saying that non-profits were exempt from the living wage ordinance. Several non-profit staff thought that youth employment and training programs were exempt. Such exemptions have been raised in debates over the living wage, but are not in the current law. Our interviews found that many non-profits are still not entirely clear on how the law works.

Some non-profits were not informed of the living wage requirements before they submitted their application for city or other funds. They thus had to raise wages after they had gone through their budget process.

Some organizations said that they are still waiting to receive last year’s funds from the city. While some staff interviewed suggested that city payment practices have made modest improvements, others pointed to continued

frustrations with the time lag between when the organization's budget starts and when they actually receive the funds.

4. Wayne County Health Plan

Wayne County offers a subsidized health insurance package, Health Choice, for employers of workers paid \$10 an hour or less. The most expensive costs for the plan (full family coverage) are under one dollar an hour for a full time employee.

Fifty-six percent of phone-surveyed non-profits said they did know about the Wayne County Health Choice Plan. Forty-two percent did not. Sixty-three percent of all surveyed said they wanted more information about it.

In the depth interviews, several non-profit organizations argued that the plan was not relevant to their situation because of its requirements. At least three employees must be enrolled, at least half of the firm's employees must be paid under \$10 an hour, and the employer must not have provided insurance during the previous 12 months. For most non-profits, a majority of their workforce is paid over \$10/hr. However, the few non-profits that face the largest costs for living wage compliance would meet the above criteria because the wage increases apply to a majority of their employees.

the needs of a minority that do face more significant obstacles. Of the close to one hundred non-profit organizations covered by Detroit's Living Wage Ordinance, no more than one out of four face such financial difficulties.

Of the 64 surveyed, only two non-profits confront change in their payroll in which they must raise the wages of a majority of their employees by a significant margin. These two organizations would need financial help to implement the living wage. In most cases facing a financial burden, however, the effected employees are only a small portion of the non-profit's staff. The potential negative impact involves mainly cutting work hours and/or reorganizing work in ways which, while not outright eliminating programming, would place greater strain on the organization's workforce. Such situations also warrant city action. The overall funds needed to pay the living wage are quite modest. The problems come from the fixed nature of many program budgets.

Benefits to Covered Workers

The impact of the wage increases on covered workers was not the focus of this study. However, in talking to non-profits about costs, we did document the exact changes in wage rates involved. No worker covered by the ordinance earned \$5.15 an hour. Instead, a majority of workers benefiting from the living wage had been employed at rates ranging between \$6-\$7.50/hr without benefits. This range suggests that for the workers who experience wage gains, the improvements are substantial. If brought up from \$7.50-\$6/hr to \$8.35/hr a full-time worker gains \$1,768 to \$4,888 a year. If brought to \$10.44, the gains range from \$6,115-\$9,235. Such a wage increases represent a raise of 10% to 74%.

Conclusions from Depth Interviews

For most non-profit employers the living wage law does not present a financial burden large enough to merit special consideration. However, city policy must address

III. Policy Recommendations

Evaluation of Current Proposals

Current Policy

As written, the living wage applies to all non-profits that receive contracts from the city valued at over \$50,000. Since Federal pass through money and other grants are given not as financial assistance (which applies only if given for economic development and job growth), but as a contract with the city, the living wage applies to non-profits who receive over \$50,000 of such funds as well. All total, the current living wage law applies to roughly 96 non-profit organizations with 1,739 covered employees.

Proposed Amendments from the City Law Department's Documents

The city law department has compiled a list of proposed changes which reflect negotiations between the Detroit Regional Chamber of Commerce and the Detroit Metropolitan AFL-CIO as well as the law department's own suggestions. The law department prepared three versions of a revised law. The first (Version A) incorporates the areas of agreement between the Chamber and the AFL-CIO plus the law department's recommendations. The second and third include amendments proposed by the Chamber and AFL-CIO respectively (versions B and C) that were not the subject of agreement. All three documents provide exemptions to non-profits. Two in effect exempt most or all non-profits. The other offers a more targeted exemption.

Amendments Which Exempt Most or All Non-profits

Version A: sec. 18-5-82 Applicability (B)

Where a contractor is a party to a contract with the city of Detroit primarily for the furnishing of services as defined in sec. 18-5-82(A)(I), and the contract is funded entirely from any federal grant program administered by the City of Detroit as defined in sec. 18-5-82(a)(II), the contractors is deemed a covered employer only if the purpose of the financial assistance is economic development or job growth.

If applied this provision would, in effect, exempt nearly all non-profit organizations. The majority of social service related contracts involve Federal pass through money, as do the Neighborhood Opportunity Funds. Thus, under this provision, only non-profits that receive funds for the purposes of economic development or job growth would be covered. The closest non-profit work to fit this category are the job placement and training programs. Yet, the proposed amendments in sec. 19-5-82(a)(iii) states that:

The training of workers to enhance the quality of the workforce, or to qualify workers for existing job opportunities, in itself is not considered economic development or job growth.

Thus, these non-profits would also be exempted. In addition to exempting most non-profit employers, the above language would also exempt for-profit employers that do social service work with funds that pass through the city.

There should be no legal basis for exempting funds that originate in either federal or state sources. Other living wage laws, including those that have been in place for several years, have explicitly applied living wage coverage to such funds. To date, there has been no legal or administrative challenge to such application. Therefore, the above language seems relevant only if the city aims to exempt large categories of employers.

Version B (Chamber): sec. 18-5-87 Coverage and Applicability for Non-profit Entities.

B. Notwithstanding other requirements for coverage, city contracts or grants for non-profit entities must exceed \$500,000 in order to be covered by the ordinance.

C. Non-profit entities are covered by the ordinance only if they employ 100 or more employees who actually perform the work under a covered city

contract or grant at each job site in thirty-five (35) or more calendar weeks in the current or preceding year.

Our survey data suggests that 35% of currently covered non-profits receive over \$500,000 through the city. Only two non-profits employ 100 or more employees. The above proposal in effect exempts all non-profits.

Why Such Large Scale Non-Profit Exemptions are Inappropriate

Our research findings make clear that the above large-scale, across-the-board exemptions are inappropriate for the following reasons.

1. The Living Wage Has Already Been Implemented

Two-thirds of non-profit organizations covered by the existing law have already self-consciously implemented the living wage requirements. One-third of those remaining are already in compliance with the wage standards of the ordinance. In the past year and a half, hundreds of employees have seen their wage increase substantially. As one non-profit staff explained “what are we supposed to do with an exemption, go tell an employee that we are taking back \$100 a week?”

Most covered non-profits have spent the past year and half trying to figure out the living wage. Many have had frustrations trying to get information from the city administration. They have nevertheless been able to make the adjustments and implement the law. The current policy proposals would fail to provide these employers with any help or recognition for their efforts. Instead, it would reward the minority of non-profits who have chosen not to respect the law. In particular, one third of non-profits who rated the impact on themselves as significant or major have already implemented the living wage requirements. Thus, large-scale exemptions would not even help a significant portion of the non-profits most in need of help.

2. Most Non-Profits Do Not Face A Significant Financial Burden

Combining the results of the phone survey and depth interviews, only at most one out of four non-profits faces a financial impact significant enough to effect their overall services provided, employment levels, or hours. Wholesale exemptions are unnecessary since the vast majority of non-profit employers are able to pay the living wage.

3. Hundreds of Workers have gained from the Living Wage Law

The wage increases generally apply only to a modest portion of a non-profit’s staff. However, when these increases among the lowest paid staff of 96 non-profit organizations are added together, the net changes benefit hundreds of workers.

4. A Majority of Non-Profit Employers Are Not Demanding Exemptions

Close to half of covered non-profit staff said they outright support the living wage law – nearly twice as many as those who expressed opposition. Furthermore, much of the opposition to the law could be addressed through specific policy reforms. Indeed, the city could meet the frustrations of many non-profit employers simply by enacting clear policy guidelines and having staff dedicated to the living wage who can answer questions in an accurate and timely manner. As many negative comments about the living wage seem to come from frustrations with the city’s administration of the law as it did with the actual wage requirements.

When asked to choose between an exemption and receiving additional funds to help pay the living wage, depth interview respondents preferred additional funds by a ratio of seven to one. In their interview comments, some non-profits expressed the benefits to their organization of higher wages in terms of attracting and retaining quality staff. Overall, their current below-living-wage pay levels seems to reflect a lack of funds, not a lack of desire to pay higher wages.

5. A Substantial Portion of Workers Benefiting from the Living Wage Work for Non-Profit Employers

Our original study on the impact of Detroit’s Living Wage Ordinance estimated that 1,403 of the 2,300 workers likely to see wage and benefit gains from the living wage requirements, as applied to contracts worked in the social service sector. Our study of non-profits confirms that the majority of employers in this sector are non-profits and that such employment does represent a substantial portion of the workers covered by the ordinance. Thus, a wholesale exemption of non-profit organizations would seriously reduce the overall reach of Detroit’s living wage law.

Amendments Proposing More Narrowly Targeted Exemptions

Version A: sec. 18-5-82 Applicability (C)

The requirements of this ordinance shall not apply with respect to any part-time or full-time employee of a covered contractor or a covered grantee where such employee is enrolled as a full-time student in high school or college, or is a participant in a job training or work study program, and the employment does not exceed seven-hundred-and-twenty (720) hours in a calendar year, the hours in excess of this amount shall be subject to the requirements of this ordinance.

Our research finds that this provision would meet the needs of non-profit organizations that hire young people to supplement their full-time staff. The living wage ordinance aims to establish a minimal family-supporting wage for working adults. Youth employment and genuine job training programs represent possible areas of employment outside of this core goal. Exemptions for these areas, thus, may be warranted. For example, several non-profits have placed some of the young people they serve on the payroll in part-time jobs working with other youth.

Version C: sec. 18-5-82 Applicability (D)

This ordinance shall not apply with respect to any employee of a contractor or grantee that is a non-for-profit organization recognized as tax exempt under the internal revenue code where the organization employs an average of ten (10) or fewer full-time-equivalent employees on a continuous basis.

Approximately 30% of non-profits currently covered by the living wage ordinance employ 10 or fewer employees. Our study found no correlation between how non-profits rated the impact on them and the size of their employment. Thus, the above policy would fail to address the needs of a majority of non-profits most in need, since they employ more than 10 people. At the same time, a majority of those non-profits with 10 or less employees are able to implement the living wage requirements without significant difficulties.

As we will describe below, targeted policies are warranted. However, criteria based on employment size or amount of funds received fail to accurately distinguish between the majority of non-profits able to implement the living wage requirements and the minority who face significant financial obstacles.

Recommended Policies

A Mix of Targeted Policies Best Addresses the Needs of Non-Profit Employers and Employees

The diversity of non-profit employers covered by the law, as well as the substantial non-profit implementation of the living wage requirements, makes broad automatic exemption policies inappropriate. The diversity of non-profits requires policies that can adjust to the individual needs of each organization. At the same time, the process for matching each non-profit to an appropriated targeted policy must have clear objective criteria so that organizations know where they stand.

Four inter-connected policies would address the needs of non-profit employers and employees.

1. Targeted Supplemental Funds

Far more non-profit staff expressed a desire to receive supplemental funds to pay all their staff a living wage than did those that pointed to an exemption. The city needs clear, objective criteria that would steer funds to those non-profits most in need. We suggest two criteria for non-profits to qualify for supplemental funds. The total estimated costs to the city for using these criteria are small.

- a. The costs of implementing the living wage requirements are more than a certain proportion of the organization's annual operating budget. (In estimating the costs of funds for the city, we use a 1% threshold.)
- b. The costs of implementing the living wage requirements are more than a certain proportion of the funds received annually from the city for a given program. (For estimating cost to the city, we use a 5% threshold.)

If a non-profit that runs multiple programs meets criteria b, but not a, it may apply for supplemental funds for a specific program if it can document why additional funds cannot be allocated from the larger organization.

The "cost to the overall budget" provision screens out most non-profits, allowing city policy to concentrate on those in greatest need. However, very often non-profits are restricted in their ability to shift funds, as outside funding often goes for specific programs. Therefore, we have kept the overall budget threshold low. The "5% for city funds to a program" screens out the organizations most capable of compensating for the living wage within a combination of their own resources and the funds received from the city.

The application for supplemental funds would be made as part of the normal process by which non-profits apply for city-related funding. The non-profit would document cost by detailing wages before and after implementing the living wage. During the depth interviews, non-profit staff explained that such documentation would not present difficulties as they already submit payroll data as part of the normal fund application process.

At least for an initial period, the supplemental funds could be set at 100% of the cost to comply with the living wage. By assuming the entire costs of the required wage increases, the city would allow non-profits whose internal pay scales may have been effected to focus their financial energy on adjusting pay categories not covered by the living wage. Alternatively, the city could provide enough

supplemental funds to reduce the cost to non-profits to below the fund qualifications. The following two criteria significantly reduces costs to the city, while still providing non-profits most in need with substantial support.

- a. the city will pay at least half of the costs.
- b. the city will pay enough of the costs so that the remaining costs to the non-profit does not exceed 5% of the funds (not including the supplement) provided by the city for the program.

Thus, if the cost is \$4,160 at 6% of the funds received from the city. The city would provide \$2,080. If the cost were \$49,400 at 23% of the city-related funds, the city would provide \$39,400 to reduce the non-profits' expenses to 5%.

The city could maintain the supplemental funds for as long as it provides money to the organization. Alternatively, the supplement could be phased out over time. For example, after the first year the non-profit assumes 20% of the costs, 40% in the third year, 60% for the fourth, etc. This approach assumes that over time the organization can build the wage costs into its normal applications to funding sources – including contracts with the city.

Estimated Costs of Providing Supplemental Funds

If the city were to provide a 100% supplement and have 1% total budget and 5% city fund criteria, the costs for the first year would be a maximum of \$179,280 for eight organizations covered in the depth interviews. Using the phone survey data, the estimated costs for the remaining organizations covered by our study would be a maximum additional \$91,782 for six organizations. This totals to no more than \$271,082 for 13 organizations. Roughly a third of this amount goes to two organizations in the senior services area. The 64 organizations in the sample represent 66% of the total organizations covered and 68% of the funds provided through the city. Expanding \$271,082 proportionally for all \$57 million dollars of city funds places the maximum cost to the city at \$398,650 total for all non-profits. This represents seven-tenths of one percent of the total funds provided by the city to non-profit organizations.

This cost to the city drops if the supplement covers half the costs or 5% of city funds. The costs for organizations in the depth interviews become \$113,013; for the others \$48,595; and for non-profits in the study a maximum of \$161,608. The total maximum for all non-profits covered by the living wage law becomes \$237,658.

The actual costs could be lower than the above estimates. We assumed that every organization eligible would apply for a supplement. Where costs have been unclear, we have also erred on the side of overestimating costs. (For example, we assumed full-time work hours where no information was available. In all likelihood some proportion of the work is part-time.)

2. Targeted Exemptions

While the targeted funds provide the principle method for addressing the financial needs of covered non-profits, policies of targeted exemptions offer an important supplement. The proposed provisions in sec. 18-5-82 (C), discussed above, do address the primary exemption need - namely youth and training employment.

Additionally, several non-profits complained about not receiving funds from the city in a timely manner. Because of this problem, funds for their payroll can be especially tight. The living wage could apply only once the actual money has been received.

3. Clear Specifications of Living Wage Coverage

All amended versions of the living wage ordinance clarify that only those workers actually employed through the use of city funds are covered by the requirements. For for-profit contractors, the living wage coverage is generally clear. The city contracts for specific work (building maintenance, parking attendants, security, etc.) and the workers who perform the contracted work are covered by the living wage law. For non-profit organizations, however, the city is often granting contracts which provide only one source of funds to an organization that conducts several different kinds of programming. In most cases, the coverage is still clear as the city funds go to a specific program. All workers under that program must be paid a living wage. However, some non-profit organizations could avoid the living wage by claiming that the city funds go to higher-paid professional work, while other funds pay for low-wage work. Thus, for example, the city funds may cover management and job placement personnel while people working below the living wage under a training job are considered funded by other sources.

The solution is two fold:

- a. As part of their normal application process for city-related funds, non-profit organizations should specify the programs for which the funds will be used, the

number of workers covered by the living wage, and the programs and workers not covered by the living wage.

- b. In approving the funds, the city confirms the programs for which the funds are provided.

For workers who perform only a portion of their work on the projects covered by city funds, the city should have a clear policy for how they are covered. Two options are available:

- a. cover anyone who participates in any way on the funded program.
- b. cover those workers whose participation on the covered program exceeds a given threshold. For example, following several years of implementation trial and error, Los Angeles specifies that any worker who spends 25% or more of their time on city-funded work is covered by the living wage.

The city should provide all non-profits with clear information on how the law operates. In the appendix is a list of the questions asked by non-profits interviewed and some recommended answers to them.

4. Clear Enforcement and Responsibility

Many non-profits expressed great confusion and difficulties in obtaining information about the living wage law and its application. While the Purchasing Division oversees living wage compliance, each individual department is currently responsible for making judgments over coverage and other application questions. Judging from non-profit responses this information is not consistent. The city clearly needs to have a single office with identified staff fully trained to answer all questions.

Version C of the proposed amendments would require the documentation necessary to properly enforce the ordinance. These include employer reporting requirements as well as a yearly report to the city council. Such measures are consistent with procedures used in other cities with living wage laws.

However, the experience from living wage enforcement in other cities confirms that passive and decentralized, department-by-department enforcement is quite ineffective. Cities that have carefully reviewed their living wage implementation (such as Baltimore, Oakland, and San Jose) have added new staff dedicated for the living wage to a single existing department. Following a poor performance by their Bureau of Contract Administration, Los Angeles established an entirely new section to enforce the living wage.

Regardless of how it is organized, effective enforcement and application of the living wage law requires full-time staff dedicated to answering questions and pro-actively pursuing effective enforcement. Judging from the experience of other municipalities with living wage ordinances, a city the size of Detroit should have a minimum of two full time staff dedicated to the living wage. This staff should be fully trained in the law so as to answer all coverage questions. They should also have the authority to conduct spot checks of covered workplaces with full access to payroll data and workers. Such pro-active contact with employers is necessary not only to document willful violations, but also clear up honest misunderstandings over how the law works.

The law department recommends the deletion of the provision in the original ordinance allowing an employee, after 90 days, to bring action in the Wayne County Circuit Court to enforce the ordinance. Unless there is some clear Michigan specific reason for removing this provision, it should be kept in place. The experience across the country suggests that a court remedy is not easily obtained unless an ordinance specifically grants this right in the specific language of the law.

IV. Relevance to Other Cities

Lessons from the Research

The findings from Detroit are likely similar to the situation found in many cities. The covered non-profits researched in this study presented a diverse mix. Since the identified impact did not relate to specific sectors, the conclusions of a modest negative impact should have general application.

The following lessons, therefore, should apply to other cities:

1. Only a minority of non-profit organizations face significant burdens from a living wage ordinance.
2. The impact can be handled through targeted city policies.
3. The experience of non-profits does not provide a basis for either opposing a living wage law generally, or pushing for policies which exempt the non-profit sector as a whole.

Policy Recommendations

The targeted measures outlined for Detroit should be relevant to other cities. The one difference is that the Detroit law had already been passed and in effect for a year and a half. Other cities may just be considering a law. Unlike Detroit, these cities would not face a situation of modifying a law that a majority of non-profits have already implemented.

Instead of granting supplemental funds, a city could use the same criteria to grant exemptions. However, such exemptions are not the preferred route of the non-profits themselves. Non-profit adult staff need a living wage not just for their families, but also to boost the quality of non-profit work. Since supplemental funds do not pose a large financial burden for the public treasury, they should be considered as the main policy tool for addressing the needs of those non-profits not able to easily implement the living wage.

The living wage laws in Washtenaw County used another approach. Their ordinance allows a full or partial exemption if a non-profit can demonstrate undue financial harm. This encourages a public process in which the city self-consciously considers a specific organization's

constraints and the funding provided to it. The draft Ann Arbor language read as follows:

For any other contract or grant, the City Council, after conducting a public hearing, may grant a partial or complete exemption from the requirements of this Chapter if it determines one of the following:

(b) The application of this Chapter would cause economic harm to a non-profit contractor/vendor or grantee in a fashion that would result in the harm created by the application of this Chapter clearly outweighing the benefits of applying this Chapter and to the extent necessary to avoid any such harm.

Lessons for Living Wage Laws Generally

This report is the first since the two Baltimore studies to examine the impact of a living wage law after it has gone into effect. While concerned with the non-profit sector, the findings have application to the living wage debate over for-profit employers.

If any group of employers is to be adversely effected by a living wage law, it would be non-profit organizations. Of all employers they have the least budget flexibility. The fact that only a small number of these organizations faced serious financial obstacles suggests that concerns for living wage requirements harming for-profit employers seem entirely unjustified. The wage costs found among Detroit's non-profits confirm that costs to employers are quite small in relation to their overall operating budgets.

Our study further dispels the notion that living wage laws will produce job losses. Detroit's living wage law produced, to date, layoffs for two part-time workers among the 64 organizations studied. Two additional non-profits face raising the wages of a majority of their work force and have held off implementing the law. With this small employment impact on those organizations potentially most vulnerable to a living wage burden, it is rather unlikely that the private sector would seriously shed jobs as a result of the living wage.

Questions from Non-Profits About the Living Wage and Suggested Answers

The following questions come from phone surveys and depth interview responses. We have suggested answers consistent with city policy and the recommendations made in this report.

1. Does the living wage apply to all of our employees?

No, the living wage is required only for workers employed in the program for which you have received funds through the city.

2. What if a person only spends part of their time on a covered program?

If they spend at least one quarter of their time on a covered program, they must be paid a living wage.

3. If only a portion of a worker's time is spent on work related to city funds, is a living wage required only of that portion of their wage?

No, if an employee is covered by spending at least a quarter of their time on work related to city funds, their entire pay rate must comply with the living wage requirements.

4. What about volunteers and clients that do work for which they receive an in-kind contribution or for which we simply pay expenses?

These are not covered by the living wage.

5. What if clients do work for which they receive both a wage and other forms of compensation, such as room and board?

The value of such compensation as room and board may be included as part of the calculated wage.

6. If in complying with the law, I raise the wages of covered employees, but do not raise the wages of employees who are not covered, but perform similar work do I risk a discrimination suit?

No, you can not be sued for complying with a law. There has been no case of a challenge toward the legality of living wage coverage anywhere in the country.

7. In the future, when the poverty level for a family of four increases, how will agencies know that the living wage has increased?

The city will send them notification in the spring of each year.

8. If an individual worker turns down an employer-provided family health plan (such as if they are already covered through a spouse), do we then have to increase their pay to 125% of the poverty level?

No, the requirement for 100% of the poverty line for a family of four if health care is provided applies to what is offered in the employment package, not what is actually used by each individual employee.

9. If we get funding for rehabilitating a building or otherwise upgrading a facility, must the programs housed in the building pay a living wage?

No, in the case of non-profits that receive funds directly for capital improvements, the living wage applies only to the workers employed on the improvement work.

Phone Survey Questionnaire

Hello, my name is _____ and I'm calling from the Center for Urban Studies at Wayne State University. The Detroit City Council has requested that we conduct a brief survey of all the non-profit employers potentially covered by Detroit's living wage ordinance. We want to ask some basic questions about your organization and the work that you do with the help of city funds.

May I please speak to the executive director, or the person best able to answer questions about city funding that your organization receives?

* Let me verify that I've reached <<NAME OF ORG>> at <<PHONE>>?

* Your organization was sent a letter within the past two weeks explaining the nature of the study, and its purpose. Did you receive this letter?

* Is this your correct address:

ADDRESS:

CITY:

ZIPCODE:

* Is your organization a non-profit organization, or is it a privately owned, for-profit employer?

* Are you familiar with the living wage ordinance passed by Detroit voters in November of 1998?

Under the law, employers who receive over \$50,000 in contracts or financial support for the purpose of economic development or job growth must pay their workers \$8.35/hr with health benefits, or \$10.44 without benefits. The law's exact application to non-profit organizations remains unclear. Since the city council will be considering enforcement procedures, modifications, and implementation measures for this law, they have asked us to profile the non-profit organizations that are potentially covered.

This information will allow them to fine tune the law in a manner appropriate to the needs of non-profit employees and employers alike. We would like to ask you some basic questions about your organization, and the work you do with the help of city funds. Of course, I want to assure you that all information will remain completely confidential, and all reports to City Council will be given in an aggregate form only.

1. Approximately, what percentage of your total operating budget comes from the funds received through the city of Detroit?

1	Less than 5%	12	55-60%
2	5-10%	13	60-65%
3	10-15%	15	70-75%
4	15-20%	16	75-80%
5	20-25%	17	80-85%
6	25-30%	18	85-90%
7	30-35%	19	90-95%
8	35-40%	20	95-100%
9	40-45%		
10	45-50%		
11	50-55%		

2. Approximately, how much money did you receive through the city in your most recent fiscal year? (Note that funds can come directly from the city, or can be state or federal funds administered by the city.) [AMOUNT IN DOLLARS]

3. And, approximately what is your total annual operating budget, including both city-administered funds and all other sources of funding? [AMOUNT IN DOLLARS]

4a. How many employees do you have?

4b. And how many of those employees are full-time?

4c. And how many of them are part-time?

5a. Of your employees, how many are currently paid under \$8.35/hr.?

5b. Of your employees, how many are currently paid more than \$8.35/hr but less than \$10.44/hr.?

5c. Of your employees, how many receive health care benefits?

6. How many of your employees perform work connected to city funds, either by performing contracted city work, or by working at a site funded in part by city allocated grants?

7. Can you briefly explain the nature of the work performed by the workers who are linked to city funds?

<<VERBATIM>>

8a. Of those employees whose work relates to city funds, how many of them are currently paid under \$8.35/hr.?

8b. How many of these employees receive health care benefits?

9a. Of those employees whose work relates to city funds, how many of them are currently paid more than \$8.35/hr but less than \$10.44/hr.?

9b. How many of these employees receive health care benefits?

10. Has your organization already made changes to accommodate the requirements of the city's living wage law? Yes/No

11a. How would you describe the financial impact on your organization when the living wage requirements were applied to all of your employees who either perform work contracted with the city or at work sites funded in part by city assistance. Would you say ...

- 1 It had minimal impact with a few simple adjustments to our finances
- 2 We had to make minor financial changes
- 3 We had to make significant financial changes
- 4 We made major financial changes that resulted in reduction of services

11b. How would you describe the financial impact on your organization if the living wage requirements are applied to all of your employees who either perform work contracted with the city or at work sites funded in part by city assistance. Would you say...

- 1 Minimal impact with a few simple adjustments to our finances
- 2 We would have to make minor financial changes
- 3 We would have to make significant financial changes
- 4 ...major financial changes that could result in reduction of services

12a. Please explain what kind of changes you had to make in order to comply with all aspects of the living wage law.

<<VERBATIM>>

12b. Please explain what kind of changes you would have to make in order to comply with all aspects of the living wage law.

<<VERBATIM>>

13. Are you aware that Wayne County offers a low-cost family medical plan to employers with workers paid \$10/hr or less? The cost for a full-time worker is under a dollar an hour for full family coverage.

14. Would you like more information on this plan?

15. In summarizing your general reactions to the Detroit's living wage ordinance, would you describe yourself as...

- 1 strongly supportive
- 2 supportive
- 3 neutral
- 4 opposed
- 5 strongly opposed

16. Finally, do you have any specific questions or concerns that you would like to be passed along to the City Council?

<<VERBATIM>>

* Thank you for taking the time to talk with me today. Once we have compiled the data from this survey, we will be following up with a number of non-profits for a more detailed discussion concerning the potential impact of the living wage law on their organization. If appropriate, can we follow up with you to arrange a possible in-person interview with you or your staff? (These interviews will be done in late February or early March 2000). Again, thank you for your time today.

Non-profit Depth Interviews Interview Schedule

Clarify What the Organization Does

- * Its general purpose
- * The tasks that it gets city funds to do. *List of services*

The Covered Workers

- * what exactly do the workers covered by city funds do? Have them explain for *each type of job*.
- * have them detail the wage picture:
 - confirm total *numbers* and total covered by living wage
 - # who are part time – # and what is the average weekly *hours* of work?
 - # not getting living wage **before** law was passed
 - below \$8.35 -- # and average wage
 - below \$10.44 no healthcare --- #
 - situation **today**
- how and to what extent are these city-covered positions distinguishable from other employees?
- what is roughly the highest paid wage/salary categories. *Type of work and \$* (try to get director's salary)

3. Impact of Implementing Living Wage

- * what was (will be) the rough cost to comply with the living wage \$
- * explain how the organization will compensate
 - *get details* – if they say they have to cut services: what kinds, how much, for how long.
- * can other funders provide help to comply with the living wage? *Yes/no/maybe, explain*
- * what is the impact on other employees, would they have to compensate them as well? If so *how many, for how much?*

4. City Policy

- * If they could chose between the city granting them an exemption or providing extra funds to help cover the living wage, which would they prefer? Please explain. *funds or exemption*
- * Assuming that the expenses have been covered, what is the broader impact of the higher wages on your operations, employee behavior, etc?
- * What information do they already have to provide the city in order to receive their current contracts/grants. *List of type of info.*
- * Would they have problems with submitting payroll data to the city as a condition for receiving additional funds? (data would document wages before the living wage law and after). *Yes/no*
- * In the past 5 years, have the funding amounts received from the city increases, decreased, stayed the same? Explain. *One of three options.*